

Tax tips for Maryland retirees

Have questions about your 2003 Maryland income taxes? Tax experts at the Maryland State Comptroller's Office have provided the following answers to the questions most frequently asked by Maryland retirees.

Residents of other states should contact their appropriate tax authority for filing information.

Should I file electronically?

It's a convenient, safe and easy way to get your tax refund fast – as opposed to waiting weeks after filing paper tax forms. You may choose from three methods to file your Maryland tax return electronically. You can:

- File online for free from the State Comptroller's web site at www.marylandtaxes.com,
- File electronically from your personal computer, using a variety of commercial software, or
- Ask a commercial tax preparer to file electronically for you.

How fast can I get my refund?

If you select direct deposit, your refund will be deposited directly into your bank account within 48 hours after your Maryland tax return is processed. It will happen that quickly even if you wait until the April 15 deadline to file electronically.

Can I file my Maryland income tax return by telephone?

Maryland is once again allowing taxpayers to TeleFile their federal

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Dear Retiree:

During the past year, we have communicated with you quarterly regarding activities at the Agency through the *Retiree News & Notes*. This issue reports on the fiscal year ending June 30, 2003. We urge you to review the summary information. If you have any concerns or questions, please contact us by letter, E-mail or use the toll free line.

The past two years have been ones of improvement, planning and restructuring for the Retirement Agency. We have achieved a higher level of accountability, professionalism and discipline at the staff and Board levels in the many functions and responsibilities we perform for you, our retirees. While you have every reason to be pleased to date, we are confident that other initiatives currently in process will reflect highly on the Agency in the year ahead.

The Board is pleased that the System's overall peer ranking, as judged by the Trust Universal Comparison Report (TUCS), continues to show improvement over prior years. A combination of market timing, asset allocation and manager selection is credited with the improved results. As of the June 30 date, the System was 93.3% funded, substantially ahead of earlier projections established by the legislature. This figure does not fully reflect the sustained market performance that began in the fourth quarter of the fiscal year.

We should note that since the end of the fiscal year the Board has been complemented by additional Trustee appointments each with professional financial and investment experience. In addition, the legislature's Joint Committee on Pensions and the Agency staff have formed a solid and proactive working relationship which now meets on a regular basis.

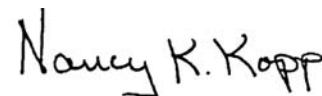
During the past year, the Agency contracted with Cortex, an international management-consulting firm, to advise us on operating policies and procedures to include Board governance, personnel, accountability and resource allocation. Cortex recommendations have been reviewed at length by the Board and were adopted in December 2003. We believe the adoption of these policies puts us in the forefront of Board Governance amongst public pension systems.

As your Chairman and Vice Chairman, we will continue to administer a more open, accountable and participative retirement system with a proactive strategy in asset oversight. No one person has all the answers to the complicated environment we operate. Competence, integrity, discipline and common sense are the foundation for excellence in the Maryland Retirement Agency program. Please be assured that your retirement benefits continue to be safe and secure.

Sincerely,



William Donald Schaefer



Nancy K. Kopp

Investment returns for fiscal year 2003 increase System assets by \$59 million

A positive investment environment returned to the financial markets in fiscal year ending June 30, 2003. Total investment return for the State Retirement and Pension System of Maryland (SRPS) was a positive 3.2% compared with a negative 7.6% for fiscal 2002. Total fund assets were \$26.7 billion at the close of fiscal 2003, an increase of \$59 million from 2002.

System Administration

The System is charged with the fiduciary responsibility for properly administering the retirement and pension allowances and other benefits, while striving to keep employer contribution rates as affordable as possible while maximizing investment returns and minimizing the risks inherent in any investment program. Members covered by the plans include State employees, teachers, law enforcement officers, legislators, judges, as well as local government employees and fire fighters whose employers have elected to participate in the System.

Funding and Reserves

Funds, derived from the excess of revenues over expenses, are accumulated by the System in order to meet benefit obligations to both current and future retirees and beneficiaries. The Annotated Code of Maryland requires participating employers to make periodic contributions which, as a level percentage of payroll, will fund the employers' "normal costs" over the members' average active service period, and the System's accrued unfunded liability in separate annual layers. At June 30, 2003, the System's assets totaled \$26.7 billion. The System now stands at 93.3% funded.

Revenues

Employer Contributions	
2003	\$601 million
2002	\$574 million
Employee Contributions	
2003	\$208 million
2002	\$199 million
Net Investment Income	
2003	\$757 million
2002	(\$2.3 billion)

Revenues

The reserves necessary to finance retirement allowances and other benefits are accumulated through investment earnings and the collection of employer and member contributions. During fiscal year 2003, investment earnings were \$799 million, while revenues from employer and member contributions were \$601 million and \$208 million, respectively.

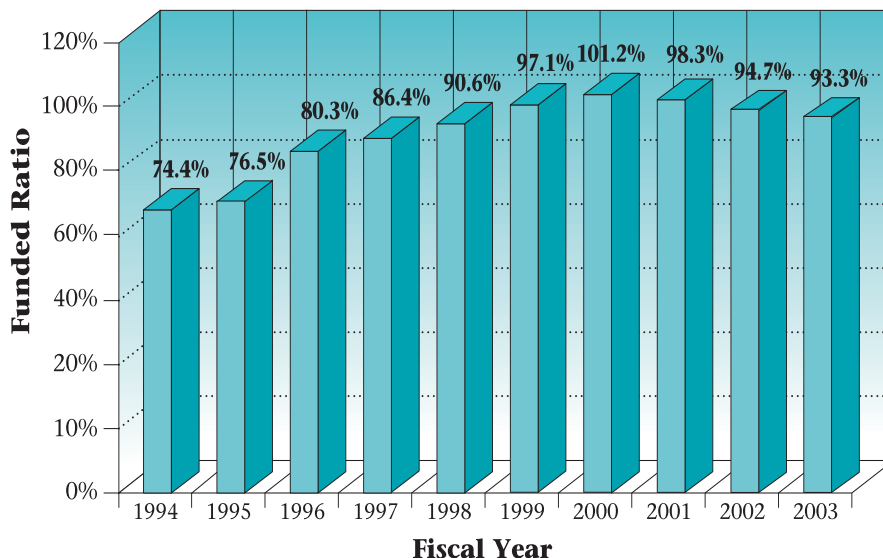
Expenses

The System's expenses consist of monthly retirement allowances, refunds of contributions to terminated and transferring members and withdrawing employers, and the administrative cost of System operations. As expected, payments to retirees, beneficiaries and transferring or withdrawing members and employers continued to be the System's primary disbursements during 2003, totaling \$1,491 million. Of this amount, the System disbursed \$1,474.3 million as retirement allowances to members and beneficiaries. The remaining \$16.3 million was paid to members and withdrawing employers as a result of employment terminations, system transfers or withdrawal.

Expenses

Benefit Payments	
2003	\$1.5 billion
2002	\$1.4 billion
Refunds	
2003	\$16 million
2002	\$17 million

Ten-Year History of Funded Ratio



Administrative and investment expenses are entirely funded through investment income. Of the \$94 million disbursed during fiscal year 2003 to manage the investment portfolio and to administer the System, \$73 million was paid for investment management, portfolio custody and securities lending services while \$21 million was used to fund the System's administrative operations.

Investment Performance and Strategy

The investment program realized a return of 3.2% for the fiscal year. This was better than that of the equity markets but less than that of the fixed income markets. Returns for three, five, and 10-year periods ending June 30 were -4.8%, 0.9% and 6.6%, respectively.

The market value of System assets increased by \$59 million during the fiscal year. The System's equity investments returned -1.4% while fixed income investments returned 11.4%. Real estate investments returned 4.6% for the fiscal year.

Under the experienced direction of its Board of Trustees, the System plans to continue following its steady course toward maximizing in-

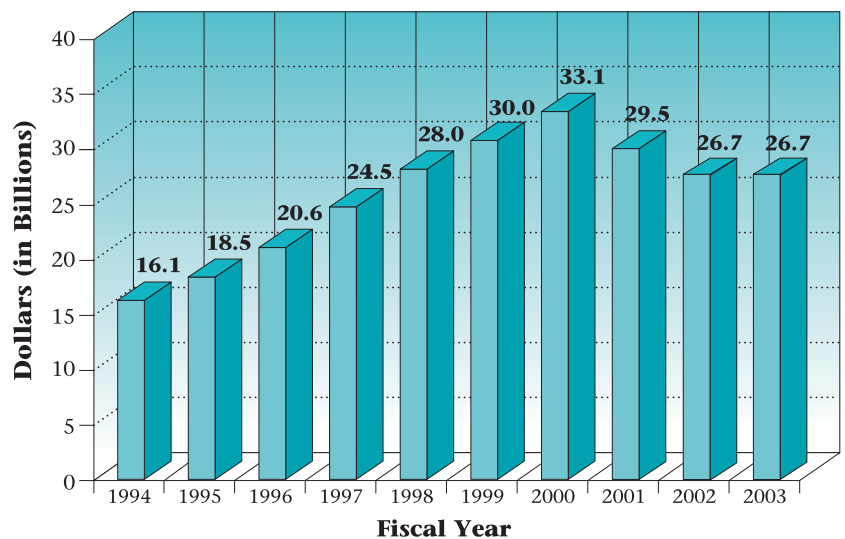
vestment returns while minimizing its exposure to risk. In the months ahead, the

System will continue to deploy assets at home as well as throughout the expanding global markets in an effort to maintain an appropriate portfolio balance.

For more information

The State Retirement and Pension System's 2003 Annual Report can be viewed and printed from the State Retirement Agency's web site located at www.sra.state.md.us. ✨

Ten-Year Growth of Investment Portfolio



Statements of Plan Net Assets as of June 30, 2003 and 2002, Condensed (Expressed in Thousands)

	2003	2002
Assets:		
Cash & cash equivalents	\$ 2,436,697	\$ 1,141,644
Total receivables	405,091	392,265
Investments, at fair value	27,179,991	28,194,918
TOTAL ASSETS	30,021,779	29,728,827
TOTAL LIABILITIES	3,293,957	3,060,317
Net assets held in trust for pension benefits:	\$ 26,727,822	\$26,668,510

Statements of Changes in Plan Net Assets for the Fiscal Years Ended June 30, 2003 and 2002, Condensed (Expressed in Thousands)

	2003	2002
Additions:		
Contributions		
Employers	\$ 226,344	\$ 226,913
Members	207,584	199,304
Other	374,986	347,106
Contribution interest	5,570	5,699
Net investment income	756,747	(2,265,315)
TOTAL ADDITIONS	1,571,231	(1,486,293)
Deductions:		
Benefit payments	1,474,257	1,372,325
Refunds	16,310	17,476
Administrative expenses	21,352	20,064
TOTAL DEDUCTIONS	1,511,919	1,409,865
Net increase (decrease) in plan assets	59,312	(2,896,158)
Net assets held in trust for pension benefits:		
Beginning of the fiscal year	26,668,510	29,564,668
End of the fiscal year	\$ 26,727,822	\$26,668,510

Tax tips

(Continued from page 1)

and Maryland tax returns, if they received a federal TeleFile tax booklet and a Maryland TeleFile tax booklet. This voluntary service essentially allows eligible taxpayers to start the electronic filing process with a single phone call.

Can I pay my tax by direct debit?

Yes. If you file electronically, you can choose to have your balance due automatically withdrawn from your savings or checking account with the Comptroller's electronic funds withdrawal (direct debit) service. You can choose the date you want the amount withdrawn, up to the April 15 filing deadline. After April 15, the funds will be withdrawn automatically after the electronic return is accepted. Partial payments will not be accepted.

Can I pay my tax with a credit card?

Yes. You can pay your Maryland tax due amount with a credit card, using American Express, Discover, MasterCard or VISA.

What's new with Maryland's pension exclusion?

Maryland's maximum pension exclusion has been increased from \$18,500 to \$19,900 for tax year 2003. See the worksheet in Instruction 13 on page 5 of the state tax booklet. When you complete this worksheet, simply enter the exclusion on line 11 of Maryland Form 502.

What should I remember about personal exemption amounts?

The personal exemption amount is \$2,400 for tax year 2003 – the same as last year. If you or your spouse is 65 or older or blind, you may be eligible for an extra \$1,000 personal exemption – in addition to the regular \$2,400 exemption.

What else should I look for?

The two-income married couple subtraction on line 16 of Form 502 applies to pension income, as well as wages, interest, dividends and business income. Married couples filing a joint return, when both have taxable income, may subtract up to \$1,200 or the income of the spouse with the lower income, whichever is less. A worksheet is included in Instruction 13 of the state tax booklet to help you calculate the subtraction.

Does Maryland tax Social Security benefits?

No. If you are affected by the federal tax on Social Security and/or Railroad Retirement benefits, you can continue to exempt those benefits from state tax. Enter on line 12 of Maryland Form 502 all Social Security and/or Railroad Retirement benefits that were taxable on your federal return and included on line 1 of Maryland Form 502.

How can I get help?

- **Internet:** You can find helpful information, download state tax forms and even file electronically

for free when you visit the Comptroller's Web site at www.marylandtaxes.com. You can also E-mail your Maryland State tax questions to taxhelp@comp.state.md.us.

- **Office visit:** Personal assistance is available at the Comptroller's 15 taxpayer service offices located throughout Maryland. State tax officials will be happy to answer any questions and they'll even complete your Maryland return for you free of charge if you bring along a completed copy of your federal return and all W-2 statements. The offices are open 8 a.m. to 5 p.m. weekdays.
- **Telephone:** You can call 410-260-7980 from Central Maryland or 1-800-MD TAXES (1-800-638-2937) from elsewhere for free Maryland State tax help. Telephone assistance will be available on these lines 8 a.m. to 9 p.m. weekdays, January 20 through April 16, 2004. ✨

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